

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

UTILITY SERVICES OF ILLINOIS, INC.

)

) Docket No. 14-0741

Proposed Rate Increases for
Water and Sewer Service.

)

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**POSITION STATEMENT AND DRAFT CONCLUSIONS
OF THE PEOPLE OF THE STATE OF ILLINOIS**

The People of the State of Illinois

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I. INTRODUCTION AND STATEMENT OF THE CASE

II. RATE BASE

III. OPERATING REVENUE AND EXPENSES

Uncontested Issues

Contested Issues

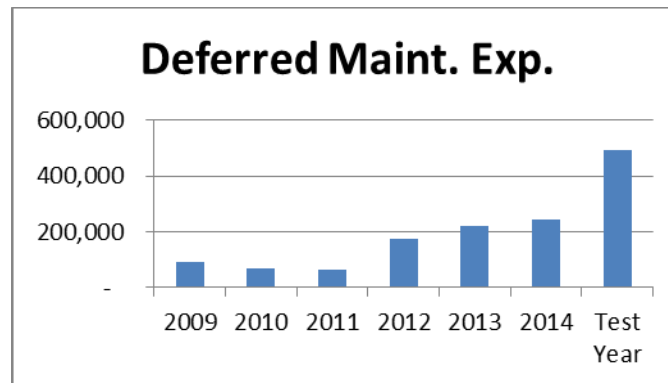
1. Deferred Maintenance Expense

AG Position

The AG argued that given the large number of water and sewer facilities owned by the Company, it should be doing several deferred-maintenance projects like painting, testing, and inspecting each year, and its annual expense should be constant over time. AG Ex. 1.0 at 12:247-253. However, despite what should be prudent practice for the Company, the AG showed that the Company's projected deferred maintenance expense of \$494,339 is around double that of 2014 and approximately four times greater than what was incurred in 2009, 2010,

and 2011. *Id.* at 13:257-262. According to the AG, the Company did not show any reason for such a dramatic increase. Thus, AG witness Mr. Radigan recommended an allowed recovery of \$300,000 for deferred maintenance, which is over 20% higher than the 2014 actual expense amount of \$245,000. *Id.* at 13:276-284.

The AG noted that Mr. Radigan in both his Direct Testimony (*id.* at 11:242) and his Rebuttal Testimony (AG Ex. 2.0 at 11:239) included a graph showing the disparity between USI's 2015 test-year projection for deferred maintenance expense and the amounts it has recovered in recent years. Mr. Radigan's graph is reproduced below.



The AG pointed out that Staff, in its Initial Brief, agreed with Mr. Radigan's testimony that "the Company's level of deferred maintenance expense forecast for the test year was beyond what should be expected." Staff Init. Brf. at 14. The AG observed that after conceding that Mr. Radigan's analysis is correct, Staff took no position as to whether Mr. Radigan's proposal should be adopted; rather, Staff argued that the Commission should adopt its proposed adjustment regarding deferred maintenance expense. *Id.* at 14-15.

The AG stated that while Staff witness Bridal's recommendation to reduce deferred maintenance expense by \$200,000 is almost the exact amount of AG witness Radigan's proposed adjustment, Mr. Bridal's proposal was based on a different theory. Staff witness Bridal's

adjustment was based on, largely, an extension of the amortization period on certain tank painting projects from 5 years to 10 years. ICC Staff Ex. 1.0 at 17:351-358; ICC Staff Schedule 1.14 W at page 1, line 3; Tr. at 72:17-73:6. After including rate base effects, the net effect on revenue requirement of Mr. Bridal's adjustment is around \$155,000. Tr. at 74:13-18; ICC Staff Ex. 1.0, Schedule 1.05W, line 7.

The AG asserted that Mr. Bridal admitted during cross-examination that his proposal to lengthen the amortization period on tank painting will not preclude USI from recovering those costs; it merely stretches out the period for recovering costs. Tr. 75:12-21. The AG added that Mr. Bridal took no consideration of the number of proposed tank painting projects in the 2015 test year against the historic average of such projects. Tr. at 76:9-17. The AG concluded that it does not object to the Commission's adopting Mr. Bridal's extended amortization period accepted by the Company. However, because Mr. Bridal's adjustment makes no attempt to consider the justness and reasonableness of the *amount* of the Company's proposed cost recovery for deferred maintenance, the AG argued that the Commission should adopt Mr. Radigan's proposed adjustment *in addition* to Staff's recommended adjustment.

With respect to USI's position, the AG noted that in its Initial Brief, the Company argued that AG witness Radigan's proposal to reduce the Company's projected \$494,339 deferred maintenance expense to \$300,000 should be rejected because he failed to show that any of the projects are not needed and he did not conduct any inspections of the facilities in question. USI Init. Brf. at 3-5. The AG contended that USI's argument flips the burden of proof on its head: Section 9-201(c) of the Public Utilities Act unequivocally states that the Company bears the burden of establishing the "justness and reasonableness of [its] proposed rates." 220 ILCS 5/9-201(c). Here, the AG stated, USI failed to meet its burden.

Commission Analysis and Conclusion re Deferred Maintenance Expense

As discussed above, USI agreed to adopt Staff's proposal to extend the amortization period on certain tank painting projects from 5 to 10 years. The Commission agrees that deferred maintenance expense should incorporate this adjustment, after reducing the recoverable amount for the tank painting projects by a pro-rated amount based on the conclusions below.

However, that does not end the Commission's inquiry on this point. AG witness Radigan recommended that deferred maintenance expense be reduced by an almost equivalent amount as Staff. However, Mr. Radigan and Mr. Bridal used different theories to reach their respective conclusion on this issue. As pointed out by the AG, Mr. Bridal's proposal was based on a different theory. Staff witness Bridal's adjustment was based on, largely, an extension of the amortization period on certain tank painting projects from 5 years to 10 years. ICC Staff Ex. 1.0 at 17:351-358; ICC Staff Schedule 1.14 W at page 1, line 3; Tr. at 72:17-73:6. The AG added that Mr. Bridal admitted during cross-examination that his proposal to lengthen the amortization period on tank painting will not preclude USI from recovering those costs; it merely stretches out the period for recovering costs. Tr. 75:12-21. The AG added that Mr. Bridal took no consideration of the number of proposed tank painting projects in the 2015 test year against the historic average of such projects. Tr. at 76:9-17.

In contrast, AG witness Radigan analyzed the justness and reasonableness of the *amount* of the Company's proposed cost recovery for deferred maintenance. Mr. Radigan testified that the Company's projected deferred maintenance expense of \$494,339 is around double that of 2014 and approximately four times greater than what was incurred in 2009, 2010, and 2011. AG Ex. 1.0 at 13:257-262. Mr. Radigan said that the Company did not show any reason for such a

dramatic increase. Mr. Radigan recommended an allowed recovery of \$300,000 for deferred maintenance, which is over 20% higher than the 2014 actual expense amount of \$245,000. *Id.* at 13:276-284.

The Commission agrees with the AG and adopts Mr. Radigan's proposal. The dramatic increase in deferred maintenance expense for the 2015 test year is troubling. While the PUA allows utilities to use future test years during rate cases, the Commission must be especially vigilant when utilities do so. Because future test years are based on projected costs, the Commission must ensure that utilities are not overstating individual costs to increase their proposed revenue requirement.

That appears to be the case here. Mr. Radigan showed that the deferred maintenance expense test year amount is almost double the amount USI incurred in 2014 and four times greater than the amounts incurred in 2009, 2010, and 2011. Such striking disparities in the context of future test-year projections give the Commission significant pause. As the party with the burden of proof, the Commission finds that USI failed to demonstrate that its proposed amount of deferred maintenance expense is just and reasonable.

The Commission also notes that USI argued that the Commission should reject Mr. Radigan's proposal because he failed to show that any of the projects are not needed and he did not conduct any inspections of the facilities in question. *Id.* at 3. USI's argument flips the burden of proof on its head. Section 9-201(c) of the Act unequivocally requires that the Company bears the burden of establishing the "justness and reasonableness of [its] proposed rates." 220 ILCS 5/9-201(c). Here, as discussed above, USI failed to meet its burden.

2. Fuel Expense

AG Position

In its Reply Brief, the AG stated that in its Initial Brief, Staff recommended that Staff witness Everson's proposed fuel expense forecast of \$2.66 per gallon for the 2015 test year be adopted. Staff Init. Brf. at 15-16. The AG added that in Company witness Justin Kersey's Surrebuttal testimony, he testified that "the Company does not oppose [Ms. Everson's] adjustment." USI Ex. 14.0 at 3:57-58. In its Initial Brief, the AG analyzed the Energy Information Agency's most recent Short-Term Energy Outlook, dated June 2015. AG Init. Brief at 5. The AG's analysis shows that the 18-month average gasoline price forecast is \$2.69 per gallon. The AG concluded because that Staff's recommendation and the most recent forecasted data are comparable, the AG agrees that Staff's recommended forecasted fuel price average should be adopted by the Commission.

Commission Analysis and Conclusion re Fuel Expense

With the AG's decision to agree to adopt Staff witness Everson's proposed adjustment regarding fuel expense, this is no longer a contested issue. The Commission finds that Ms. Everson's proposed fuel expense forecast of \$2.66 per gallon is just and reasonable and adopts her recommendation.

3. Rate Case Expense

AG Position

The AG argued that USI did not establish that certain Water Service Corporation (“WSC”) employees’ salaries are included in both rate case expense and as part of Wages and Salaries. AG witness Radigan observed that without a showing that there is no double counting of internal staff time allocated to both Wages and Salaries expense and rate case expense, all rate case expense costs should be excluded from the test-year revenue requirement. AG Ex. 2.0 at 18:388-394. Because USI failed to show that there is no “double-counting,” the AG recommended that the Commission adopt Mr. Radigan’s recommendation that the internal staff component of rate case expense be removed from the test-year revenue requirement – a downward adjustment of one-fifth of \$195,470, or \$39,094. AG Ex. 1.0 at 10:195-207.

The AG pointed out USI’s Initial Brief claimed that the Commission rejected the AG’s argument in Docket Nos. 11-0561 through 11-0566 (consol.) that certain of WSC employee costs should be excluded from rate case expense because those costs were being recovered as part of Wages and Salaries expense. USI Init. Brf. at 6. The AG responded that USI’s position is incorrect. In its Order in Docket Nos. 11-0561 through 11-0566 (consol.), the Commission did not address arguments concerning “double-counting” because the companies in that case did not provide enough evidence to establish that their proposed rate case expense was just and reasonable. *Charmar Water Company, et. al., Proposed General Increase in Water Rates*, ICC Docket Nos. 11-0561 through 11-0566 (consol.), Final Order at 20 (May 22, 2012). According to the AG, the Commission stated that it was mindful of the “double-counting” concern raised by the AG in the consolidated cases, but it did not address that issue, because “[t]he Commission cannot make an informed judgment regarding that initial “single”-counting of these labor expenses, as that information is not in the record.” *Id.*

Commission Analysis and Conclusion re Rate Case Expense

The Commission agrees with the AG that USI did not meet its burden of showing that certain WSC employees' salaries are included in both rate case expense and as part of Wages and Salaries. Because it did not meet its burden, the Commission adopts AG witness Radigan's recommendation that all rate case expense costs should be excluded from the test-year revenue requirement. AG Ex. 2.0 at 18:388-394. Doing so results in a downward adjustment of one-fifth of \$195,470, or \$39,094. AG Ex. 1.0 at 10:195-207.

As to USI's claim that the Commission rejected the AG's argument in Docket Nos. 11-0561 through 11-0566 (consol.) that certain WSC employee costs should be excluded from rate case expense because those costs were being recovered as part of Wages and Salaries expense. USI Init. Brf. at 6. USI's position is incorrect. In its Order in Docket Nos. 11-0561 through 11-0566 (consol.), the Commission did not address arguments concerning "double-counting" because the companies in that case did not provide enough evidence to establish that their proposed rate case expense was just and reasonable. *Charmar Water Company, et. al., Proposed General Increase in Water Rates*, ICC Docket Nos. 11-0561 through 11-0566 (consol.), Final Order at 20 (May 22, 2012). As to double-counting, the Commission stated that it was mindful of the "double-counting" concern raised by the AG in the consolidated cases, but it did not address that issue, because "[t]he Commission cannot make an informed judgment regarding that initial "single"-counting of these labor expenses, as that information is not in the record." *Id.*

4. Insurance Expense

AG Position

In its Reply Brief, the AG argued that USI asserted that it met its burden of proof by showing that that USI's share of WSC total customer equivalent base has increased from 6.90% in 2014 to 7.07% in 2015. USI Init Brf. at 7. According to the Company, this purported increase offsets a projected 2.2% decrease in insurance costs for all of Utilities, Inc.'s subsidiary companies.¹ The AG claimed that the Company's numbers do not add up.

The AG stated that Mr. Radigan testified that USI's insurance expense increased from \$187,804 in 2014 to a projected \$196, 978 in the 2015 future test year, a 4.88% increase. AG Ex. 1.0 at 10-11:212-221. According to USI, its share of WSC's insurance costs for all of the UI subsidiaries increased from 6.90% to 7.07%, a 2.46% increase. USI Ex. 14.0 at 2:34-35. The AG asserted that USI provided no explanation as to how a 2.46% increase in its share of overall WSC insurance costs coupled with a 2.2% *decrease* in WSC overall insurance costs yields an almost 5% increase in insurance expense for the Company.

The AG also noted that USI's evidentiary presentation concerning insurance costs was part of a pattern the Company followed in this case on several issues. According to the AG, USI presented minimal information supporting certain increased expenses in its direct case. When Staff and/or the AG challenged certain of those expenses in their respective direct cases, USI provided additional information regarding the challenged items. When Staff and/or the AG argued that the additional information was not sufficient, USI provided even more detail in its surrebuttal case.

The AG said that is precisely what USI did with insurance expense. In its rebuttal testimony, Staff agreed with the theoretical basis of Mr. Radigan's adjustment to insurance expense. Staff Ex. 8.0 at 8:147-152. However, in its Initial Brief, the AG explained that Staff

¹ Utilities, Inc. is the parent company of USI.

stated that the additional information USI submitted in surrebuttal testimony satisfies its concerns on this issue and it is “withdrawing its adjustment.” Staff Init. Brf. at 19.

The AG recommended that the Commission not reward such “hide-the-ball” tactics. The AG said that utilities should be required to submit all supporting information in their direct cases. Staff and Intervenors should not have to expend scarce resources extracting additional information from utilities for explanations that purportedly support their requested rate increases.

The AG concluded that because the Company did not meet the burden of proof on this issue, the Commission should reject its proposed test-year expense level. Instead, the AG recommended that the Commission adopt the more reasonable proposal made by Mr. Radigan, using the \$174,525 two-year average as the test-year insurance expense in the Company’s revenue requirement.

Commission Analysis and Conclusion re Insurance Expense

The Commission agrees with the AG that USI did not meet its burden of showing that its projected insurance expense is just and reasonable. USI asserted that its share of WSC total customer equivalent base has increased from 6.90% in 2014 to 7.07% in 2015. USI Init Brf. at 7. According to the Company, this increase offsets a projected 2.2% decrease in insurance costs for all of Utilities, Inc.’s subsidiary companies.² The Company’s numbers do not add up.

Mr. Radigan testified that USI’s insurance expense increased from \$187,804 in 2014 to a projected \$196, 978 in the 2015 future test year, a 4.88% increase. AG Ex. 1.0 at 10-11:212-221. According to USI, its share of WSC’s insurance costs for all of the UI subsidiaries increased from 6.90% to 7.07%, a 2.46% increase. USI Ex. 14.0 at 2:34-35. USI provided no explanation

² Utilities, Inc. is the parent company of USI.

as to how a 2.46% increase in its share of overall WSC insurance costs coupled with a 2.2% *decrease* in WSC overall insurance costs yields an almost 5% increase in insurance expense for the Company.

The Commission finds that because the Company did not meet the burden of proof on this issue, it rejects its proposed test-year expense level. The Commission adopts the more reasonable proposal made by Mr. Radigan, using the \$174,525 two-year average as the test-year insurance expense in the Company's revenue requirement.

The Commission also agrees with the AG concerning USI's litigation tactics. As explained by the AG, USI presented minimal information supporting certain increased expenses in its direct case. When Staff and/or the AG challenged certain of those expenses in their respective direct cases, USI provided additional information regarding the challenged items. When Staff and/or the AG argued that the additional information was not sufficient, USI provided even more detail in its surrebuttal case.

The Commission does not condone such "hide-the-ball" tactics. Utilities should submit all supporting information in their direct cases. In this time of scarce resources, Staff and Intervenors should not have to expend precious time and money extracting additional information from utilities for explanations supporting their requested rate increases.

5. Wages and Salaries Expense

AG Position

The AG alleged that the Company's proposed Wages and Salaries expense is overstated. AG witness Radigan explained that Wages and Salaries expense is comprised of two

components: (1) Salaries and Wages and (2) Maintenance Expense Charged to Plant. AG Ex. 1.0 at 14:290-291. Salaries and Wages are the payroll costs for a company and Maintenance Expense Charged to Plant is employee time spent on a project that is capitalized and as Wages and Salaries expense become part of the project over time. *Id.* at 14:293-296. Net Wages and Salaries expense is calculated by subtracting the Maintenance Expense Charged to Plant from Salaries and Wages.

The AG stated that for its 2015 test year, the Company is forecasting a Net Wages and Salaries level of \$1,133,588, a 45% increase over the annualized value from the most recent 18-month period available. *Id.* at 15:310-16:318. As to the Wages and Salaries component, the AG said that the Company projects a forecasted increase from \$1.226 million to \$1.684 million – a 37% increase, far in excess of a 3% annual labor cost increase. AG Ex. 1.0 at 16:326-328.

The AG contended that USI's explanations for its proposed dramatic increase in Wages and Salaries Expense are meritless. USI witness Kersey cited the recent filling of vacant positions, a scheduled 3% pay increase, and USI's recent acquisition of its Oakwood system as reasons for the dramatic increase in labor costs. USI Ex. 8.0 at 7:136-144. The AG responded that the Company did not prove that the Oakwood acquisition increased its headcount. AG Ex. 2.0 at 17:362-366. Mr. Radigan also found, as the AG noted, that salary expense has been flat over the past five years, despite salary increases during that time. *Id.* at 17:368-371. Finally, the AG observed that for ten particular employees, the Company is requesting a portion of their time to be recovered under salaries and wages and the *same* portion to be recovered under rate case expense. *Id.* at 16:349-17:360. USI witness Kersey defended the Company's position in surrebuttal by noting that five (though not all ten) of those employees have 50% of their salaries reserved for capitalized time. However, as the AG observed, he also admitted in cross-

examination that he has not supplied support for those employees' actual use of time, other than for their time in the instant rate proceeding. Tr. at 45:8-21.

The AG argued that Mr. Radigan's proposal is a far more reasonable Net Wages and Salaries expense level. He recommended using the most recent 18-month period available, January 2013 through June 2014, as a basis for setting a Net Wages and Salaries expense level for the test year. This results in an expense level of \$781,934 for the test-year revenue requirement. AG Ex. 1.0 at 17:343-350.

In its Reply Brief, the AG claimed that USI's argument regarding Wages and Salaries attempts to reverse the burden of proof. The Company's entire argument is a critique of Mr. Radigan's alleged failures to conduct additional discovery or to review information provided. USI Init. Brf. at 8-9. USI has the burden of proof in this case, notes the AG; criticizing a Staff or Intervenor witness for failing to conduct additional discovery to see if a utility can fill holes in its case does not qualify as satisfying that burden. The AG argues that it is the utility's unequivocal obligation to prove its case, and USI has not done so here.

Commission Analysis and Conclusion re Wages and Salaries Expense

The Commission agrees with the AG that the Company's proposed Wages and Salaries expense is overstated. Wages and Salaries expense is comprised of two components: (1) Salaries and Wages and (2) Maintenance Expense Charged to Plant. Salaries and Wages are the payroll costs for a company and Maintenance Expense Charged to Plant is employee time spent on a project that is capitalized and as Wages and Salaries expense become part of the project

over time. Net Wages and Salaries expense is calculated by subtracting the Maintenance Expense Charged to Plant from Salaries and Wages.

For its 2015 test year, the Company is forecasting a Net Wages and Salaries level of \$1,133,588, a 45% increase over the annualized value from the most recent 18-month period available. As to the Wages and Salaries component, the Company projects a forecasted increase from \$1.226 million to \$1.684 million – a 37% increase, far in excess of a 3% annual labor cost increase.

The Commission finds USI's explanations for its proposed dramatic increase in Wages and Salaries Expense wanting. USI witness Kersey cited the recent filling of vacant positions, a scheduled 3% pay increase, and USI's recent acquisition of its Oakwood system as reasons for the dramatic increase in labor costs. USI Ex. 8.0 at 7:136-144. The Commission notes that salary expense has been flat over the past five years, despite salary increases during that time. Moreover, the Company is requesting a portion of ten particular employees' time to be recovered under salaries and wages and the *same* portion to be recovered under rate case expense. USI witness Kersey defended the Company's position in surrebuttal by noting that five (though not all ten) of those employees have 50% of their salaries reserved for capitalized time. However, he also admitted in cross-examination that he has not supplied support for those employees' actual use of time, other than for their time in the instant rate proceeding. Tr. at 45:8-21.

The Commission finds Mr. Radigan's proposal to be a far more reasonable Net Wages and Salaries expense level. Mr. Radigan recommended using the most recent 18-month period available, January 2013 through June 2014, as a basis for setting a Net Wages and Salaries expense level for the test year. This results in an expense level of \$781,934 for the test-year revenue requirement.

6. Uncollectibles Expense

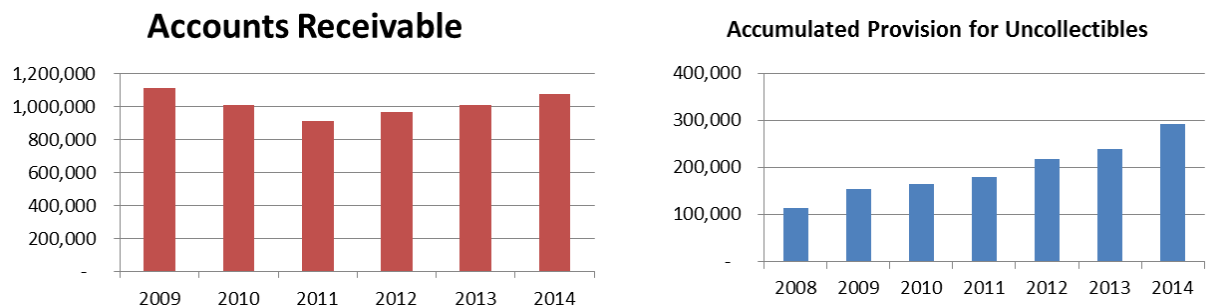
AG Position

AG witness Radigan testified that USI is forecasting uncollectible revenues of (\$109,149), or uncollectible expense of \$109,149. AG Ex. 1.0 at 6:130. The Company estimates that 1.01 percent of its bills will not be paid during the rate year, based on an alleged historical comparison between bad debt and revenues. USI Exhibit 3.1 at 4. Mr. Radigan found that the absolute level of bad debt expense and the level of bad debt expense as a percentage of billed revenues vary widely from year to year. For instance, as the AG notes, Mr. Radigan stated that bad debt expense was approximately \$51,000 in 2009, \$35,000 in 2011, \$46,000 in 2013 and \$14,000 in 2014. The AG argued that USI's almost \$110,000 estimate is more than twice as high as the highest bad debt expense level in the last five years. AG Ex. 1.0 at 7:138-139. The AG added that the Company's forecast is also grossly overstated on a percentage basis; bad debt levels have been as low as 0.2% of revenues. *Id.* at 7:143-144. Mr. Radigan thus suggested that the Commission adopt a more reasonable estimate of uncollectible expense in the test year: \$30,000, roughly equal to recent averages. *Id.* at 7:146-149. He later updated this to \$31,400 in his rebuttal testimony to include agency costs. AG Ex. 2.0 at 8:184-185.

In its Reply Brief, the AG responded to the Company's assertion that Mr. Radigan's proposed adjustment should be rejected because he "refused to consider Uncollectible Accounts Accrual Expense." USI Init. Brf. at 9. The AG said USI's claim is patently false. In his Rebuttal Testimony, Mr. Radigan responded to the Company's criticism that he did not consider Uncollectible Accounts Accrual Expense, explaining that the Uncollectible Accounts Accrual

Expense is “the costs the Company is reserving for the write-off of customers’ account balances prior to stopping service.” AG Ex. 2.0 at 9:188-189. Mr. Radigan testified that in deciding whether to include Uncollectible Accounts Accrual Expense in setting rates, one must look at Accounts Receivable, which is the running balance of money owed to a company. *Id.* at 9:195-199. If Accounts Receivable are increasing (*i.e.*, more bills are going unpaid), a company should set aside larger amounts in case the unpaid bills become an Uncollectible. the AG argues, citing Mr. Radigan’s testimony, that the decision whether to increase Uncollectible Accounts Accrual Expense is discretionary and if that account is rising while Accounts Receivable is steady, the company is putting too much in reserve. *Id.* at 9-10:203-207.

Mr. Radigan testified that this is precisely what is happening with USI. The AG notes that Mr. Radigan included two graphs in his testimony demonstrating this phenomenon. The graphs are reproduced below.



Id. at 10:207-210.

According to the AG, the graphs show that the Company’s level of Accounts Receivable has been relatively steady for the period 2009-2014, while the Accumulated Provision for Uncollectable Accounts has almost tripled between 2008 and 2014. Mr. Radigan testified that the Company has sufficient money in the Accumulated Provision for Uncollectible Accounts to stop setting aside any money in the Uncollectible Accounts Accrual and bring the Accumulated

Provision for Uncollectible Accounts back down to the 2008 level (from almost \$300,000 in 2014 to \$100,000 in 2008). The AG asserts that because bad debt expense has averaged approximately \$30,000 per year, this draw down could occur for as long as five years with no more Uncollectible Accounts Accrual. Mr. Radigan concluded that including the Uncollectibles Accounts Accrual in this case would result in a windfall to the Company. *Id.* at 10:212-222

Commission Analysis and Conclusion re Uncollectible Expense

The Commission agrees with the AG that USI's proposed Uncollectible Expense is not just and reasonable. The absolute level of bad debt expense and the level of bad debt expense as a percentage of billed revenues vary widely from year to year. Bad debt expense was approximately \$51,000 in 2009, \$35,000 in 2011, \$46,000 in 2013 and \$14,000 in 2014. USI's almost \$110,000 estimate is more than twice as high as the highest bad debt expense level in the last five years. The Company's forecast is also overstated on a percentage basis; bad debt levels have been as low as 0.2% of revenues. The Commission adopts Mr. Radigan's recommendation from his Rebuttal Testimony that an Uncollectible Expense be set at \$31,400. AG Ex. 2.0 at 8:184-185.

The Commission rejects the Company's criticism that Mr. Radigan's proposed adjustment should be rejected because he "refused to consider Uncollectible Accounts Accrual Expense." USI Init. Brf. at 9. Mr. Radigan responded that the Uncollectible Accounts Accrual Expense is "the costs the Company is reserving for the write-off of customers' account balances prior to stopping service." AG Ex. 2.0 at 9:188-189. In deciding whether to include Uncollectible Accounts Accrual Expense in setting rates, one must look at Accounts Receivable.

Accounts Receivable is the running balance of money owed to a company. *Id.* at 9:195-199. If Accounts Receivable are increasing (*i.e.*, more bills are going unpaid), a company should set aside larger amounts in case the unpaid bills become an Uncollectible. The decision whether to increase Uncollectible Accounts Accrual Expense is discretionary and if that account is rising while Accounts Receivable is steady, the company is putting too much in reserve. *Id.* at 9-10:203-207.

The evidence shows that the Company's level of Accounts Receivable has been relatively steady for the period 2009-2014, while the Accumulated Provision for Uncollectable Accounts has almost tripled between 2008 and 2014. The Commission finds that the Company has sufficient money in its Accumulated Provision for Uncollectible Accounts such that it could stop setting aside money and bring the Accumulated Provision for Uncollectible Accounts back down to the 2008 level (from almost \$300,000 in 2014 to \$100,000 in 2008). Because bad debt expense has averaged approximately \$30,000 per year, this draw down could occur for as long as five years with no more increases in the Uncollectible Accounts Accrual. The Commission concludes that including the Uncollectibles Accounts Accrual in this case would result in a windfall to the Company.

7. Sales Adjustment

AG Position

The Company incorporated a forecast of annual sales decline at a rate of 2.65% per year. USI Ex. 3.1 at 2. The AG argued that USI has not proved that such a decrease is warranted, because the Company has not normalized its recent sales data against rainfall over the same time

period. The AG said that consumption and rainfall are correlated; USI witness Kersey's own analysis found a bivariate correlation of 0.25 between these two variables. USI Ex. 8.0, Schedule 8.3, column c, line 22. Moreover, as Mr. Radigan showed, the Galena territory, for example, has seen generally higher rainfall than normal during the past five years. AG Ex. 1.0 at 7-10:151-190. The AG argued that such a finding is consistent with high rains driving lower usage. A six-year sample of sales is predictive of future sales only if the rainfall and temperature during the six-year sample were consistent with average rainfall and temperature over a longer time period. AG Ex. 2.0 at 4-5:89-93. The AG contended that the Company did not prove that in its presentation. The AG pointed out that although USI witness Kersey admitted in cross-examination that, in his words, "a greater sample size would probably increase your accuracy in a projection" (Tr. at 40:4-5) he did not attempt to look at historic usage earlier than mid-2008, because the Company's software has no data prior to that year. Tr. at 40:17-22.

The AG added that Mr. Kersey admitted in cross-examination that the Company did not prepare any multivariate regression analysis attempting to include both temperature and rainfall as explanatory variables driving consumption. Tr. at 42:5-9. In re-direct examination, Mr. Kersey stated that the Company "look[ed] at the six-year weather" over the same time period and "compared those to "10, 20, and 100-year averages for both rainfall and temperature, and did not see any abnormalities or a reason to adjust the consumption for weather." However, upon cross-examination, Mr. Kersey admitted that "abnormality" in his telling meant a deviation greater than five percentage points from long-term historic averages and that it is likely that he would have ignored any deviation from normal of less than five percentage points when examining rainfall over the past six years. Tr. at 48:12-50:3; tr. at 50:11-18. The AG argued that a deviation of 4.9%, then, would have escaped Mr. Kersey's attention – but such a deviation would

swamp the alleged 2.65% decline in usage, meaning that his examination of the representativeness of recent rainfall trends had little value.

The AG concluded that USI failed to meet its burden of proving that its projected sales decrease is just and reasonable. Accordingly, consistent with Mr. Radigan's recommendation, the AG recommended that the Commission use the actual 2014 sales level, without any reduction, as the test-year billing determinants in setting new rates to achieve the approved revenue requirement.

Commission Analysis and Conclusion re Sales Adjustment

The Commission agrees with the AG that USI's proposal to reduce annual sales at a rate of 2.65% per year is not supported by the record. USI has not proved that such a decrease is warranted, because the Company has not normalized its recent sales data against rainfall over the same time period. Consumption and rainfall are correlated; USI witness Kersey's own analysis found a bivariate correlation of 0.25 between these two variables. USI Ex. 8.0, Schedule 8.3, column c, line 22. The Galena territory, for example, has seen generally higher rainfall than normal during the past five years. Such a finding is consistent with high rains driving lower usage. Although USI witness Kersey admitted in cross-examination that, in his words, "a greater sample size would probably increase your accuracy in a projection" (Tr. at 40:4-5) he did not attempt to look at historic usage earlier than mid-2008, because the Company's software has no data prior to that year. Tr. at 40:17-22.

In addition, Mr. Kersey admitted in cross-examination that the Company did not prepare any multivariate regression analysis attempting to include both temperature and rainfall as

explanatory variables driving consumption. Tr. at 42:5-9. In re-direct examination, Mr. Kersey stated that the Company “look[ed] at the six-year weather” over the same time period and “compared those to “10, 20, and 100-year averages for both rainfall and temperature, and did not see any abnormalities or a reason to adjust the consumption for weather.” However, upon cross-examination, Mr. Kersey admitted that “abnormality” in his telling meant a deviation greater than five percentage points from long-term historic averages and that it is likely that he would have ignored any deviation from normal of less than five percentage points when examining rainfall over the past six years. Tr. at 48:12-50:3; tr. at 50:11-18. A deviation of 4.9%, then, would have escaped Mr. Kersey’s attention – but such a deviation would swamp the alleged 2.65% decline in usage, meaning that his examination of the representativeness of recent rainfall trends had little value.

The Commission finds that USI failed to meet its burden of proving that its projected sales decrease is just and reasonable. Accordingly, consistent with the AG’s proposal, the Commission concludes that the actual 2014 sales level, without any reduction, should be used as the test-year billing determinants in setting new rates to achieve the approved revenue requirement.

IV. RATE OF RETURN

V. RATE DESIGN

VI. OTHER

VII. CONCLUSION

Respectfully submitted,

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